

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**APPLICATION OF KENTUCKY-AMERICAN
WATER COMPANY FOR ISSUANCE OF
INDEBTEDNESS AND CONTINUED
PARTICIPATION WITH AMERICAN WATER
CAPITAL CORP.**

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CASE NO. 2012-00393

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of Kentucky-American Water Company's October 12, 2012 Responses to the Commission Staff's First Request for Information and that the supplemental responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date:

10/11/12



Linda Bridwell
Manager, Rates and Regulation
Kentucky-American Water Company

**KENTUCKY AMERICAN WATER COMPANY
CASE NO. 2012-00393
FIRST DISCOVERY REQUEST OF THE
PUBLIC SERVICE COMMISSION STAFF**

Responsible Witness: Linda C. Bridwell

Question:

1. At paragraph 10 of its application, Kentucky-American states that “[a]ll the proceeds from these [long-term debt] financings will be used to refinance short-term debt necessary to (i) fund construction expenditures, and (ii) meet other internal cash requirements.”
 - a. List and describe each construction expenditure for which Kentucky-American intends to use the proceeds of the financings to partially or fully finance. This description should include the project name and the estimated cost of the project.
 - b. Identify and describe the “other internal cash requirements” for which the proceeds will be used.

Response:

- a. Kentucky American Water utilizes a combination of short-term debt and equity to provide cash for construction expenditures. Then at an appropriate time, the short-term debt is converted to long-term debt. There are not specific construction expenditures that are tied specifically with the proceeds of the financings. The appropriate level of short-term debt may fluctuate based on a number of factors, including interest rates, anticipated expenditures, and overall market conditions. With that said, KAW has provided a list of the 2012-2014 construction expenditures by year by project with a total project cost that will be financed as described. Please refer to the attachment.
- b. The only other cash requirement funded by the long-term debt financing is the transaction cost of the financing itself.

STRATEGIC CAPITAL EXPENDITURE PLAN							
PROGRAM							
Business Unit		Kentucky					
Revision Date		October 4, 2012					
Description		KY 2 Yr BP 2012-2014 SCEP					
Business Unit	Business Unit No.	Project Title	Inservice Date	Prior Years Actuals	Total 2012	Total 2013	Total 2014
RECURRING PROJECTS							
Kentucky	DV	Projects Funded by Others			2,298,414.69	2,090,900.00	2,122,901.00
Kentucky	A	Mains - New			940,214.05	259,999.00	284,955.50
Kentucky	B	Mains - Replaced / Restored			1,769,613.29	2,064,364.67	2,077,603.50
Kentucky	C	Mains - Unscheduled			242,099.14	275,483.50	275,483.50
Kentucky	D	Mains - Relocated			302,501.47	480,079.00	515,078.50
Kentucky	E	Hydrants, Valves, and Manholes - New			105,342.98	184,992.50	201,500.00
Kentucky	F	Hydrants, Valves, and Manholes - Replaced			187,511.08	305,695.50	305,696.00
Kentucky	G	Services and Laterals - New			1,094,725.11	1,042,444.50	1,101,428.50
Kentucky	H	Services and Laterals - Replaced			577,113.08	1,011,321.00	1,048,993.50
Kentucky	I	Meters - New			933,276.32	504,239.50	504,240.50
Kentucky	J	Meters - Replaced			3,079,731.92	2,362,739.00	2,320,552.00
Kentucky	K	ITS Equipment and Systems			739,868.56	315,805.00	117,860.00
Kentucky	L	SCADA Equipment and Systems			1,041,204.68	1,113,688.00	131,313.00
Kentucky	M	Security Equipment and Systems			21,010.00	210,100.00	157,574.50
Kentucky	N	Offices and Operations Centers			303,268.83	105,050.00	126,060.00
Kentucky	O	Vehicles			565,952.67	541,008.00	562,018.00
Kentucky	P	Tools and Equipment			370,775.98	307,797.00	343,569.00
Kentucky	Q	Process Plant Facilities and Equipment			1,479,568.70	1,381,991.00	1,401,693.00
Kentucky	R	Capitalized Tank Rehabilitation / Painting					
Kentucky	S	Engineering Studies			66,085.11	42,020.00	42,020.00
Total Recurring Projects					13,819,862.97	12,508,817.17	11,517,639.00
ACQUISITIONS							
Kentucky		Total Acquisitions					
CENTRALLY SPONSORED PROJECTS							
Kentucky	CS-1201-1	Business Transformation 2009	6/30/2010				
Kentucky	CS-1201-3	Business Transformation 2010 - 2014	12/31/2014	4,522,880	4,052,675.73	1,853,963.00	115,183.00
Kentucky	CS-1201-4	Business Transformation 2010 - 2014	12/31/2013	300,972	419,384.57	43,382.00	
Total Centrally Sponsored Projects					4,472,060.30	1,897,345.00	115,183.00
INVESTMENT PROJECTS							
Kentucky	12020607	New WTP On Pool 3 of Kentucky	9/20/2010	164,101,828	12,163.72		
Kentucky	IP-1202-38	Russell Cave Rd Main Extension	7/15/2012	447,814	38,189.95		
Kentucky	IP-1202-18	US 25 Relocation	7/30/2012	1,630,480	1,180,167.38		
Kentucky	IP-1202-19	Leestown Road	4/15/2013	909,612	423,657.00	440,000.00	
Kentucky	IP-1202-36	Pump Efficiency Replacement Phase 1	4/15/2013		1,586,656.52	831,596.33	
Kentucky	IP-1202-9	Todds and Cleveland Rd Main Extension	11/15/2014				2,400,000.00
Kentucky	IP-1202-10	KRS Cleanwell Improvements (332)	6/15/2015				3,000,000.00
Kentucky	IP-1202-11	I-75 Main Extension	11/15/2014				2,000,000.00
Kentucky	IP-1202-13	Greenwich Rd Main Extension	10/15/2014				1,300,000.00
Kentucky	IP-1202-16	North Upper St Main Replacement (343)	12/15/2014				1,500,282.00
Kentucky	IP-1202-20	KY Major Highway					1,000,000.00
Kentucky	IP-1202-23	RRS Carbon and Pre-Chlorine Feed	9/15/2014				500,000.00
Kentucky	IP-1202-27	KRS Hydrotreater Valve & Flow Meter	7/30/2014				250,000.00
Kentucky	IP-1202-37	Pump Efficiency Repl Phase 2	9/25/2013				
Kentucky	IP-1202-39	Pump Efficiency Repl Phase 3	9/25/2014				457,866.00
Kentucky	IP-1232-5	Northern Division Connection	12/28/2013	344,375	3,548,521.12	9,793,797.00	418,885.00
Total Investment Projects					6,789,355.69	11,065,393.33	12,827,033.00
Total Investment and Centrally Sponsored Projects					11,261,415.99	12,962,738.33	12,942,216.00
Contributions					(2,915,423.77)	(3,165,000.00)	(1,725,000.00)
Advances					(1,345,268.42)	(1,559,000.00)	(1,486,000.00)
Total Refunds					713,000.00	905,000.00	1,000,000.00
Gross Investment Expenditures					27,379,693.65	27,562,455.50	26,582,756.00
Net Investment Expenditures					(3,547,692.19)	(3,819,000.00)	(2,211,000.00)
					23,832,001.46	23,743,455.50	24,371,756.00

**KENTUCKY AMERICAN WATER COMPANY
CASE NO. 2012-00393
FIRST DISCOVERY REQUEST OF THE
PUBLIC SERVICE COMMISSION STAFF**

Responsible Witness: Linda C. Bridwell

Question:

2. Describe Kentucky-American's efforts, if any, to reduce the cost of its long-term debt through the refinancing of existing long-term debt with higher than current market interest rates.

Response:

Kentucky-American regularly reviews its portfolio of existing long-term debt obligations, as well as its other capital structure components, to identify opportunities to reduce its financing costs. Currently, the Company's long-term debt is comprised of issuances that are either not callable at this time, or if callable, have substantial make-whole premiums that result in the refinancing having a negative net present value.

However, to illustrate its ongoing effort to manage its financing costs, KAW called all of its non-mandatory preferred stock, redeeming it on July 6, 2012. This preferred stock, which totaled \$1,445,600, was comprised of three series with varying interest rates of 5.00%, 5.50% and 5.75%. As a result of these redemptions, KAW estimates that it will achieve annual savings of \$36,390.

**KENTUCKY AMERICAN WATER COMPANY
CASE NO. 2012-00393
FIRST DISCOVERY REQUEST OF THE
PUBLIC SERVICE COMMISSION STAFF**

Responsible Witness: Linda C. Bridwell

Question:

3. a. Provide all studies, analyses, reports, and reviews that compare Kentucky-American's cost for the proposed financing as a participant in the borrowing program with American Water Capital Corp. with Kentucky-American borrowing directly from third parties.
- b. If no studies have been conducted, explain why Kentucky-American's continued participation is more cost-effective than obtaining the proposed financing from a third party.

Response:

- a. No additional studies, analyses, reports or reviews have been formally conducted for the purpose of comparing the proposed financing as a participant in the borrowing program with American Water Capital Corp. ("AWCC") with Kentucky-American borrowing directly from third parties. However, in 2007 KAW made a comparison of financing through AWCC versus third party tax-exempt financing. At that time, even tax-exempt financing had to be greater than \$5 million to be less than AWCC borrowing due to transaction costs. Please refer to the direct testimony of Mr. Louis Walters and the Company's response to Item 29 of the Commission's First Data Request dated May 21, 2007 in Case No. 2007-00134 for a comparison of utilizing AWCC versus third party tax-exempt financing. KAW ultimately utilized \$97.39 million tax exempt financing issued through AWCC.

Additionally, KAW has verified that each recent AWCC debt issuance has been at reasonable rates that are equal to or slightly lower than estimates for taxable utility bonds with the same credit rating. Please refer to the attachment which includes reports that were filed in Case No. 2009-00156 and Case No. 2011-00115.

- b. In general, AWCC is able to issue long-term debt on terms more favorable than KAW could achieve directly from a third party due to AWCC's economies of scale achieved through larger long-term offerings, greater access to capital markets, and geographic diversification. Although KAW is not currently rated by

any of the major rating agencies, these factors all contribute to AWCC having a stronger corporate credit rating (currently BBB+ from Standard & Poor's) than KAW could obtain on its own.

AWCC's economies of scale result in lower long-term debt issuance costs for KAW when it participates in the AWCC borrowing program. This occurs because AWCC is able to spread the fixed portion of the total issuance costs pro-rata across all participating subsidiaries in contrast to any one subsidiary incurring all of the costs on its own. Having said that, the Financial Services Agreement between KAW and AWCC (please see Exhibit 1 to KAW's August 31, 2012 Application in this matter) allows KAW the discretion to issue debt directly to a third party lender. KAW would issue third party debt if it were able to secure the financing at a lower all-in cost than it would incur by issuing debt through AWCC.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)	
)	
APPLICATION OF KENTUCKY-AMERICAN)	CASE NO. 2009-00156
WATER COMPANY FOR ISSUANCE)	
OF INDEBTEDNESS AND CONTINUED)	
PARTICIPATION WITH AMERICAN WATER)	
CAPITAL CORP.)	

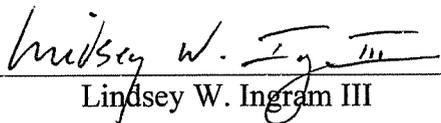
ORDERING PARAGRAPH 5 REPORT

In accordance with Ordering Paragraph 5 of the Commission's May 29, 2009 Order in this matter, Kentucky American Water provides the attached report detailing the terms and conditions of the \$26,000,000 private activity bond issuance the Commission authorized in its May 29, 2009 and August 21, 2009 Orders. The attached also provides an analysis showing the interest rate for the bond issuance was the most reasonable at the time of issuance as proven by an annual savings of \$135,200.

A.W. Turner, Jr., General Counsel
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

and

STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000

BY: 
Lindsey W. Ingram III

**Kentucky American Water Company
Analysis of Interest Rate on KAWC 5.625% Series, \$26.000 million bond**

Value Line Information:

Tax Exempt 25-Bond Index (Rev's)	5.99%	Taxable BBB-rated 25/30 Yr.	6.14%
Pub. Date 9/11//09			
Price Date 9/2/09			
Basis Point Savings to Taxable Rates			0.52%
Annual Savings to Published Taxable Bond Rates			\$135,200

Bond Terms:

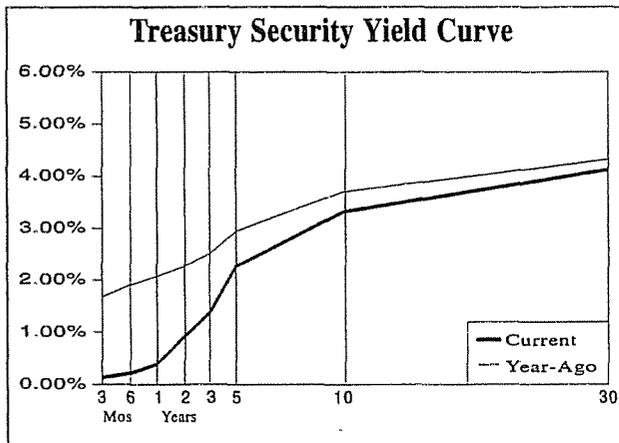
Type Tax Exempt
Interest Rate 5.625% fixed
Rating S&P-BBB+: Moody's-Baa2
Maturity Term 30 Years
Amount \$26,000,000
Pricing Date 1-Sep-09

Conclusions:

1. The tax exempt rate obtained by KAW/AWCC on September 1, 2009 was determined by a competitive market bid. The 5.625% rate obtained was lower than the 25 Yr. bond index and in line with the the 25/30 Yr. revenue bond rates published in the Value Line publication of September 11, 2009.
2. The tax exempt rate of 5.625% obtained by KAW/AWCC was a reduction of 0.52% from the Value Line published rate for BBB rated, 25/30 year taxable issues per Value Line's pricing of September 2, generating an annual savings of \$135,200 from the similar taxable bonds normally issued by KAW/AWCC.

Selected Yields

	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)		Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
TAXABLE							
Market Rates							
Discount Rate	0.50	0.50	2.25				
Federal Funds	0.00-0.25	0.00-0.25	2.00				
Prime Rate	3.25	3.25	5.00				
30-day CP (A1/P1)	0.23	0.28	2.88				
3-month LIBOR	0.33	0.64	2.81				
Bank CDs							
6-month	0.42	0.70	1.60				
1-year	0.72	0.92	2.26				
5-year	2.25	1.92	4.15				
U.S. Treasury Securities							
3-month	0.13	0.12	1.68				
6-month	0.21	0.25	1.90				
1-year	0.38	0.44	2.07				
5-year	2.27	2.42	2.95				
10-year	3.31	3.54	3.70				
10-year (inflation-protected)	1.74	1.63	1.64				
30-year	4.12	4.45	4.32				
30-year Zero	4.22	4.53	4.37				
Mortgage-Backed Securities							
GNMA 6.5%	3.92	3.37	5.60				
FHLMC 6.5% (Gold)	3.07	2.89	5.67				
FNMA 6.5%	2.85	2.78	5.48				
FNMA ARM	2.62	2.53	3.89				
Corporate Bonds							
Financial (10-year) A	5.79	6.82	6.69				
Industrial (25/30-year) A	5.43	6.35	6.11				
Utility (25/30-year) A	5.45	6.17	6.13				
Utility (25/30-year) Baa/BBB	6.14	7.83	6.54				
Foreign Bonds (10-Year)							
Canada	3.33	3.36	3.48				
Germany	3.23	3.57	4.14				
Japan	1.32	1.55	1.47				
United Kingdom	3.55	3.79	4.50				
Preferred Stocks							
Utility A	6.37	6.10	6.16				
Financial A	5.94	8.35	6.97				
Financial Adjustable A	5.53	5.53	5.53				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	4.53	4.61	4.68				
25-Bond Index (Revs)	5.99	5.53	5.17				
General Obligation Bonds (GOs)							
1-year Aaa	0.40	0.40	1.58				
1-year A	0.90	1.13	1.68				
5-year Aaa	1.80	2.02	2.74				
5-year A	2.24	3.45	2.84				
10-year Aaa	2.93	3.01	3.55				
10-year A	3.30	4.55	3.75				
25/30-year Aaa	4.36	4.64	4.69				
25/30-year A	4.82	6.16	5.07				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	5.30	6.20	4.85				
Electric AA	5.40	6.25	4.80				
Housing AA	5.55	6.55	5.15				
Hospital AA	5.60	6.50	5.25				
Toll Road Aaa	5.35	6.30	4.80				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	8/26/09	8/12/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	794546	708501	86045	756262	762985	613020
Borrowed Reserves	327647	340534	-12887	394750	486512	508084
Net Free/Borrowed Reserves	466899	367967	98932	361512	276473	104936

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	8/17/09	8/10/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1658.2	1663.6	-5.4	17.9%	13.1%	19.9%
M2 (M1+savings+small time deposits)	8312.4	8318.3	-5.9	-1.5%	1.1%	8.1%

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2011-00115
WATER COMPANY FOR ISSUANCE)
OF INDEBTEDNESS AND CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

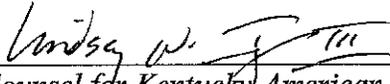
ORDERING PARAGRAPH 4 REPORT

In accordance with Ordering Paragraph 4 of the Commission's May 26, 2011 Order in this matter, this is to report to the Commission that Kentucky American Water ("KAW") issued debt in the amount of \$20,000,000 on November 21, 2011 in accordance with the Commission's May 26, 2011 Order. The debt was issued pursuant to KAW's participation in the American Water Capital Corporation borrowing program. The interest rate is 5.05% and it matures on October 15, 2037.

The attached analysis shows that the rate of 5.05% was the most reasonable at the time of issuance as described in Ordering Paragraph 4 of the May 26, 2011 Order. To explain, the page captioned "Bloomberg Valuation Price" shows Bloomberg's valuation of the debt at issue at an interest rate of 5.071% on November 18, 2011, the last business day before the debt was issued. Further, the page captioned "Secondary Traded Price" shows the interest rate at which the debt that KAW assumed was trading for on the secondary market on November 17, 2011, the last date for which information was available prior to the issuance. That secondary market interest rate was 5.169%. Thus, the rate of 5.05% is the most reasonable under the circumstances that existed at the time of issuance.

Respectfully submitted,

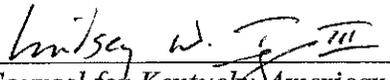
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Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
L.Ingram@skofirm.com



Counsel for Kentucky American Water Company

CERTIFICATE

This is to certify that the original and ten copies of the foregoing have been hand-delivered to the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601 on this 1st day of December, 2011.



Counsel for Kentucky American Water Company

010311.003026/4008008.1

Bloomberg Valuation Price

Page 1/6 Historical Price Table

BVAL/CLOSE/TRADE/VTM
AMERICAN WATER AWK 6.593 10/37 120.661/123.443 (5.14/4.97) BVAL

Range: 11/13/2011 to 11/13/2011 Source: Daily BVAL
Market: Period Trade

DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price	YIELD
F 11/18	121.796	5.071	F 10/28	117.103	5.364	F 10/7	118.530	5.275
T 11/17	122.228	5.045	T 10/27	115.757	5.451	T 10/6	119.412	5.220
W 11/16	121.579	5.085	W 10/26	118.588	5.270	W 10/5	120.928	5.127
T 11/15	121.090	5.114	T 10/25	120.200	5.170	T 10/4	121.637	5.084
M 11/14	121.344	5.099	M 10/24	114.422	5.539	M 10/3	123.364	4.981
F 11/11	120.245	5.166	F 10/21	115.281	5.482	F 9/30	121.273	5.106
T 11/10	120.078	5.177	T 10/20	115.769	5.451	T 9/29	118.254	5.293
W 11/9	122.454	5.032	W 10/19	116.139	5.427	W 9/28	117.731	5.326
T 11/8	120.928	5.125	T 10/18	119.442	5.218	T 9/27	117.502	5.341
M 11/7	122.079	5.055	M 10/17	115.847	5.446	M 9/26	118.939	5.250
F 11/4	121.604	5.084	F 10/14	114.533	5.532	F 9/23	120.639	5.145
T 11/3	121.371	5.098	T 10/13	116.370	5.412	T 9/22	122.407	5.039
W 11/2	122.935	5.004	W 10/12	115.386	5.476	W 9/21	118.732	5.263
T 11/1	124.026	4.940	T 10/11	116.707	5.391	T 9/20	116.804	5.385
M 10/31	120.388	5.159	M 10/10	118.706	5.264	M 9/19	127.500	4.743

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000



AMERICAN WATER | NYSE: AWK

www.amwater.com

Secondary Traded Price

TRAC/CLOSE/TRADE/YTM		AMERICAN WATER AWK 6.593 10/37 120.191/120.191 (5.17/5.17) TRAC		Source		Historical Price Table	
DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price
F 11/17	120.191	5.169	F 10/28			F 10/7	122.205
T 11/16	121.073	5.115	T 10/27			T 10/6	110.082
W 11/15	H122.205	5.047	W 10/26	120.000	5.183	W 10/5	101.250
T 11/14			T 10/25	115.333	5.479	T 10/4	
M 11/13			M 10/24			M 10/3	
F 11/11			F 10/21			F 9/30	
T 11/10			T 10/20	112.100	5.695	T 9/29	
W 11/9			W 10/19	116.602	5.397	W 9/28	113.789
T 11/8			T 10/18			T 9/27	
M 11/7			M 10/17			M 9/26	119.491
F 11/4			F 10/14			F 9/23	120.287
T 11/3			T 10/13			T 9/22	120.238
W 11/2			W 10/12			W 9/21	
T 11/1			T 10/11	113.709	5.587	T 9/20	115.221
M 10/31	119.312	5.225	M 10/10			M 9/19	

Range: 119.312 to 122.205
 HI: 122.205 ON: 11/15/11
 AVE: 110.082
 LOW: 101.250 ON: 12/17/10

AUSTRALIA 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8500 Singapore 65 6212 1000 U.S. 1 212 316 2000
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